

Chairman Tom Davis
Opening Statement
Joint Hearing of Government Reform Committee
and Small Business Committee
“Northern Lights and Procurement Plights: The Effect of the ANC Program on Federal
Procurement and Alaska Native Corporations”
June 21, 2006

Good afternoon, I would like to welcome everyone to today's joint oversight hearing with the Small Business Committee on the awarding of contracts by Federal agencies to Alaska Native Corporations (ANCs) participating in the Small Business Administration's 8(a) program. I would like to extend a special welcome to Chairman Manzullo and Ranking Member Velazquez and all of the Members of the Small Business Committee participating in our hearing today. Further, we are honored by the participation of the distinguished Member from Alaska, and Chairman of the Committee on Transportation and Infrastructure, the Honorable Don Young who will be our lead off witness.

Over the last few years, the increased participation of ANCs in the government market through the use of non-competitive contracts has spawned various newspaper articles and concerns that the Federal government's competitive acquisition system was being circumvented. Therefore, our Committee and the Small Business Committee tasked the Government Accountability Office (GAO) to review the role of ANCs in our competitive acquisition system and within the SBA's 8(a) program. The GAO report, issued this April, showed that sole-source awards to ANCs have been on the rise in recent years and that SBA has not tailored its policies and practices to account for ANCs' unique status and growth in the 8(a) program.

Through this hearing, I hope to explore the impact of the special exemption to the standard of full and open competition granted ANCs. I also expect to hear about SBA's management of the program and whether the Alaska Native people are receiving the appropriate benefits from the acquisition advantages they have been given. I recognize that the ANC program has a complex background and that the ANCs were created in a context independent of any participation in the acquisition system.

The Alaska Native Claims Settlement Act was enacted in 1971 to resolve land claims and to foster economic development for the Alaska Native people. ANCs were established under the act to become the vehicle for distributing land and monetary benefits in lieu of a reservation system. ANCs are to be used for the benefit of Alaska Native people. Alaska Natives are eligible for membership in the ANC for their village or locality and, as shareholders, are entitled a voice in management and a share in the assets and income. A part of this income in many, but not all, of the ANCs comes from government contract revenues.

ANCs have been permitted since 1986 to participate in the SBA 8(a) program. The 8(a) program was established to help socially and economically disadvantaged groups start small businesses and develop them, at least in part, by contracting with the Federal government. Under the program, federal agencies are allowed to award contracts without competition to small businesses that are certified by the SBA as 8(a) firms. For most firms, these sole-source awards are limited to \$5 million for manufacturing and \$3 million for other goods and services. Acquisitions above these thresholds must be competed among eligible 8(a) certified small businesses. These limitations do not apply to ANC firms participating in the 8(a) program. ANCs are subject to different requirements than other 8(a) firms in a number of respects. For example, ANCs are not subject to the “affiliation rule” which requires other 8(a) small businesses to count affiliates or subsidiaries of the business to determine whether the business concern is “small.”

The GAO review of the ANC program found that expenditures obligated to ANC firms through the 8(a) program have grown significantly, from \$265 million in 2000 to \$1.1 billion in 2004. My concern is centered on GAO’s finding that the spending of six federal agencies, the Departments of Defense, Energy, Homeland Security, Interior, State, Transportation and NASA, through sole-source contracts to ANC firms rose from about \$180 million in 2000 to \$876 million 2004. These sole-source contracts represented a broad range of services, such as contracts for construction in Brazil, training of security guards in Iraq, and information technology services in Washington, D.C.

According to the GAO report, agency officials said that they use ANC firms as a quick, easy, and legal method of awarding contracts of any value. At the same time, the officials noted that these contracts help them meet small business goals. It is notable, I think, that nowhere in the GAO report is there a statement that the contracts were awarded to ANCs because of the quality or value of the performance offered. Further, according to GAO, SBA has not tailored its policies and practices to account for ANCs’ unique status in the 8(a) program and their growth in federal contracting.

I worry about the impact of this program on our already overburdened competitive acquisition system. Ideally, the system is designed to permit all segments of the global competitive market to contend to provide our government with the best value good and services available. Yet we have increasingly burdened our system with restrictions on competition. We prohibit acquisitions from some overseas suppliers and we limit competition to a bewildering array of special types of businesses. While these various restrictions often have laudable social goals, they all come at a price. Whenever competition is limited for reasons that are not tied to the needs of the government, taxpayers pay the price in quality and cost.

I hope this hearing will help clarify the impact of the ANC program on our competitive acquisition process and the value of the ANC program to the Alaska Native people. I look forward to the witnesses’ views on ways to improve the management, oversight, and structure of the ANC program so that appropriate benefits go to the Alaska Native people, and taxpayers get the benefit of the best value goods and services available from the marketplace.

